



**Director of  
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**Top Secret**

*OCO/Cable Editor*

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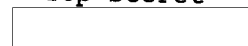
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ISRAEL-LEBANON: Advance Continues

(Information as of 2300 EDT)

*Israeli forces yesterday continued consolidating their positions to the Beirut area, moving deeper into Phalange-held territory north of the Beirut-Damascus highway. There were only scattered exchanges of fire between Israeli and PLO units.*

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There is no information to confirm press reports that PLO leader Arafat has sought refuge in a foreign embassy.//

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There were late indications that the Israelis were also moving east toward Ras al Matn, an area that has been occupied by Syrian troops and their Lebanese allies. Syrian units were said to be withdrawing eastward in front of the Israeli advance.

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Comment: If confirmed, this Israeli move is probably designed to force the Syrians out of Christian areas contiguous to Phalange territory and, in the end, into the Bekaa Valley.

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Lebanese Internal Developments

Lebanese President Sarkis negotiated an agreement with Prime Minister Wazzan and several cabinet members on Sunday to form a "Committee of National Salvation" representing all major sects as the basis for a new government. The committee is to include Wazzan, Foreign Minister Butrus, Shia militia leader Nabih Barri, Druze leader Walid Junblat and Phalange leader Bashir Jumayyil. The committee failed to meet yesterday when Junblat and Barri refused to participate.

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Comment: Sarkis hopes that the committee can oversee the deployment of the Christian-dominated Army into Muslim West Beirut where it can begin to supervise PLO military activity. He also is trying to gain some time for the government by drawing in Jumayyil before the Israelis move on their own to install him as head of state.

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Comment: Syrian forces in Lebanon would be at a serious disadvantage if they attempt to confront the Israelis. Syrian units in the Bekaa Valley were significantly weakened in the fighting last week, and Syrian units moving into Lebanon from the border area could be quickly neutralized by Israeli airpower.

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[REDACTED]

### Arab Reaction

Arab leaders remain uncertain about the outcome in Lebanon and the effect the crisis will have on broader Middle Eastern questions. Reporting continues to indicate growing popular hostility toward the US for what most Arabs regard as its collusion with Israel. [REDACTED]

Some Arab moderates [REDACTED] have derived private satisfaction from the setbacks inflicted on the Syrians and the PLO, and see potential for improved stability in Lebanon if the situation is handled carefully.

[REDACTED]

### Economic Impact in Israel

Israel announced three new taxes on Sunday designed to raise about \$650 million to cover the cost of the Lebanese invasion. The most important of these "Peace for Galilee Taxes" is an increase in the value-added tax from 12 percent to 15 percent expected to bring in an additional \$500 million. A 2-percent tax on stock market transactions and a \$27 levy on Israelis traveling abroad was also imposed. [REDACTED]

Although Finance Minister Aridor said he did not know how much the war has cost, opposition Labor Party officials put the cost for the first week between \$600 million and \$700 million. Industrialists have reported a significant drop in output because of the reserve callups. The stock exchange is closed for two days to prepare for the paper-work imposed by the new tax. [REDACTED]

Comment: The increase in the value-added tax will increase Israel's inflation--already running at an annual rate of 136 percent. The impact of the reserve callup will be mitigated to the extent that many reservists who had recently completed their compulsory military service have been unable to find jobs. Export receipts--already reported to be down--could be further reduced because of the lower production. [REDACTED]

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UK-ARGENTINA: Surrender at Stanley Imminent

(Information as of 2300 EDT)

*A temporary cease-fire was arranged yesterday at Stanley after British forces made major gains. Argentina appears ready to surrender the Stanley garrison, but Britain probably will demand the surrender of all Argentine troops in East and West Falkland.*

General Menendez, the Argentine commander of the Falklands, had been ordered to negotiate a surrender. The Argentine press reported he was instructed to enter into talks with his British counterpart "as long as the honor of the Argentine armed forces is not affected."

Press accounts of the British attack yesterday described Argentine troops "streaming" back toward Stanley after the fall of perimeter defensive positions.

Comment: The British forces apparently seized most of the remaining positions outside Stanley yesterday, including Mount William, Tumbledown Mountain and Wireless Ridge. This would leave the British in control of all the high ground around Stanley. If the Argentine troops abandoned their prepared positions and retreated toward Stanley in confusion, their commander would have had little choice but to ask for a cease-fire, since his routed forces would be open to artillery and air attacks.

UK Domestic Front

Prime Minister Thatcher yesterday told the House of Commons that talks were in progress between General Menendez and British General Walters--deputy to British ground commander General Moore--for the surrender of East and West Falkland Islands. Spokesmen for all opposition parties congratulated the government on its handling of the crisis and expressed relief that the end appears in sight. Nonetheless, Labor Party leader Foot suggested there would be serious discussion on how the crisis evolved.

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Comment: //Although Thatcher's statement seems to be more definite on Argentine surrender than some earlier reports concerning the terms of the cease-fire, British authorities clearly expect to take complete control soon. Britain will continue to press for the surrender of both major islands to preclude any Argentine use of West Falkland as a staging base for a counterstrike.//

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//If Argentina refuses to surrender both islands, London will almost certainly move swiftly to secure its current position and then mount a military operation to roll up all Argentine military units on West Falkland. As Foot's comment indicates, the postmortem may present Thatcher with her most serious challenge yet in the Falkland crisis.//

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NIGERIA: Oil Revenue Shortfall

*Nigeria's oil production, although increasing, still is not enough to meet the country's financial needs.*

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[REDACTED]

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//Lower oil revenues and continued high spending forced Nigeria to draw down foreign exchange reserves to \$1.1 billion by the end of April--only 30 percent of the level at the end of 1981.

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[REDACTED]

Comment: Nigerian production should continue to rise throughout the third quarter as stock drawdowns come to an end and total demand for OPEC oil increases by 3 to 4 million barrels per day. Even if output rose to the maximum sustainable capacity of 2.2 million barrels per day, Lagos would still have to adhere strictly to recent austerity measures in order to offset the low level of oil revenues in the past few months and keep the current account deficit in 1982 manageable.

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Wage controls and import restrictions, if effectively enforced, could stir up labor militancy and urban unrest and provide the political opposition with exploitable issues in this preelection year. If significantly higher oil production levels are not forthcoming or if import spending does not fall below the level of last year, Nigeria's current account deficit could reach \$7 billion.

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[REDACTED]

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USSR: Grain Harvest Prospects

//Recent data released in Moscow suggest that, because of poor weather, several million hectares will not be seeded as planned, and the area sown probably is the smallest in a decade. In several regions of the Russian Republic, moreover, temperatures are colder than normal, retarding the development of both winter and spring grains. Important livestock feedgrains will be hardest hit.//

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Comment: //These problems may result in another disastrous grain crop. The best the Soviets can hope for is a 200-million-ton grain harvest, which would require near optimal growing conditions for the rest of the season. If there is a further marked deterioration in crop conditions--particularly in the main spring wheat region, east of the Ural Mountains--the harvest in 1982 could fall below 185 million tons.//

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POLAND: Renewed Disorder

Demonstrations protesting martial law occurred in three cities on Sunday but were smaller than those in early May. In the southwestern city of Wroclaw, police efforts to disperse a crowd of 700 provoked a clash that lasted all night. Dozens of police were injured, security force vans were overturned and firebombed, and 96 protesters were arrested. In an industrial suburb of Krakow, police used water cannon and tear gas to break up a march by approximately 7,000 young people. Security forces in Gdansk used tear gas to disperse a crowd of about 700 and detained 60 demonstrators.

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MEXICO-US: Payments for F-5s in Arrears

Economic difficulties are causing Mexico to fall behind in payments to the US for the 12 F-5 fighter aircraft it plans to receive before the end of President Lopez Portillo's term in December. The \$100 million contract for the aircraft and support equipment, signed in March 1981, is an important part of the military's modernization effort. Following the peso devaluation earlier this year, however, the Air Force requested that the US reschedule the payments. Despite subsequent trimming of the order and juggling of schedules, Mexico is now \$2.6 million behind in its payments, and it needs to come up with roughly \$10 million by October to keep the deliveries on schedule. [REDACTED]

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Comment: Mexico City probably will again seek revisions in the order and the payments, rather than face the possibility that the US will hold back on some of the aircraft scheduled for delivery in October. It is likely to suggest additional cutbacks in the support package and push for more refinancing so that all 12 of the fighters can be delivered by December. [REDACTED]

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SPECIAL ANALYSIS

ROMANIA: Ceausescu Cracks Down

*President Ceausescu's recent sweeping purge of top officials and his crackdown on intellectuals are meant to intimidate potential critics of his economic policies. This approach may succeed for a time, but only substantial reforms might stem the economic decline and avert further disaffection. Ceausescu, who is disappointed over the lack of Western concern for Romania's debt problems, is looking to the East for help.*

Ceausescu frequently has rotated his top subordinates to prevent challenges to his supremacy, to provide scapegoats for policy failures and to ensure a responsive bureaucracy. The personnel changes last month are the latest in a series of shifts since early 1981 in which Ceausescu has replaced two-thirds of the party's executive Secretariat and over half of the Council of Ministers.

For the most part, key posts have gone to functionaries loyal to the President. Constantin Dascalescu, who replaced the able and experienced Ilie Verdet as Premier, is a party troubleshooter with little background in economic management.

Dascalescu is likely to demand greater discipline from government ministers who apparently have been lax in implementing Ceausescu's economic policies. After firing all eight deputy prime ministers, Ceausescu appointed four new ones, only one of whom has extensive economic experience.

Verdet and former Foreign Trade Minister Burtica, both members of the party's elite Permanent Bureau and longtime aides of Ceausescu, are major scapegoats for Romania's economic problems. Ceausescu may have believed that they had built a sufficient following to make them a threat at a time when his own popularity was at low ebb. In addition, they may have differed with Ceausescu on economic policy or balked at implementing his often arbitrary directives.

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### Economic Problems

//The underlying cause of Ceausescu's moves is his vulnerability to criticism for failure of his economic development strategy. Growth in the key industrial sector has slowed to the lowest rate since the immediate postwar era. Agricultural output has declined during the past two years and prospects are poor for a turnaround this year.//

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//Lack of hard currency to pay foreign debts has forced Romania into debt rescheduling. The slow progress of the rescheduling talks--a final agreement may not be reached until the end of the summer--impedes Romania's ability to finance badly needed imports of energy and other raw materials.//

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//Consumers bear the burden of the slowdown. Food shortages continue despite substantial jumps in consumer prices and rationing of some key items. Electrical power shortages have resulted in reduced work schedules and layoffs. Bucharest has forced some workers who lost jobs in the cities to return to the farms.//

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//There recently were a few localized strikes over economic grievances. The regime, however, has relied on police repression to prevent a repetition of the violent riots last fall.//

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### Turning to the East

The West's cutoff of credit earlier this year probably convinced Ceausescu to increase Romania's efforts to expand ties with the East. Over the past two years trade with the USSR already had increased 30 percent annually, but Romania still does not receive concessionary terms available to other CEMA members on oil and other important items.

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Ceausescu still distrusts Moscow and refuses to make significant political concessions to obtain economic aid. His talks in February with Italian Communist Party officials during their ideological dispute with the USSR and his recent visit to China testify to his continued pursuit of an independent foreign policy.

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As long as he maintains his maverick posture, Ceausescu can expect few substantial benefits from any turn to the East. He may, however, reason that a display of vigilance against Western influences in Romania may evoke some sympathetic response in Moscow. The selection of Romania's former representative to CEMA to oversee the country's foreign trade activities, in place of the more Western-oriented Burtica, may be another gesture to the Soviets.

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#### Outlook

Ceausescu appears determined to deal with economic problems by administrative tinkering, tightened controls and forced austerity. Continued adherence to this approach, combined with a personnel policy that deemphasizes experience and initiative, will contribute to economic decline, erosion of living conditions and social instability. Popular discontent will continue to simmer, and further impositions of austerity could set off spontaneous disturbances.

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With top officials cowed by the recent purges, chances for serious anti-Ceausescu plotting from within his inner circle are slimmer than ever in the short term. The numbers of prominent victims of Ceausescu's purges continue to grow, however, creating an ever-widening pool of potential foes. Many of them have extensive contacts throughout the demoralized bureaucracy and might find substantial support should they mount a challenge to Ceausescu.

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